

REPORT OF THE TOWN MANAGER

The fiscal year 2016 general fund budget totals \$193,549,110, an increase of \$13,362,199, or 7.4 percent over the fiscal year 2015 adopted budget. The recommended budget is balanced and will not require a Proposition 2 ½ override vote. The Board of Selectmen has unanimously approved this FY2016 Recommended Budget and Financing Plan, with the exception of deferring action on the proposed School Committee's Educational Capacity Facility Plan.

Overview of the FY2016 Recommended Budget and Financing Plan

The Board of Selectmen held the first of seven financial summits with the School Committee, Appropriation Committee and Capital Expenditures Committee on October 8, 2014 to begin working on the fiscal year 2016 budget. Following the sixth financial summit, the Board of Selectmen approved the FY2016 recommended operating and capital budgets on February 23, 2015.

Given the recovering State and local economy, the Board of Selectmen established a goal of presenting a budget for FY2016 that was sustainable and would prepare the Town for the long list of substantial capital projects in the coming five years. With this as a priority, the Town Manager and Superintendent of Schools worked to present initial budget recommendations that were within projected FY2016 revenues. On January 12, 2015 the Town Manager presented a Preliminary Budget and Financing Plan that was balanced, but included a number of open issues related to the proposed operating and capital budgets. These issues were discussed at Financial Summits 4-7 and resolved with the exception of the School Committee's Educational Capacity Facility Plan, which is still under review by the Selectmen.

This budget, being recommended to Town Meeting for adoption, provides for:

- \$620,567 to be appropriated from the Capital Projects/Debt Service Reserve/Building Renewal Stabilization Fund (Capital Stabilization Fund) to mitigate the increase in debt service for those capital projects financed within the property tax levy;
- \$110,000 in revenues to be set aside to offset potential reductions in State and federal aid;
- \$9,447,832 in revenues to be appropriated to the Capital Stabilization Fund for future capital projects;
- \$1,862,194 in revenues to be appropriated to the Other Post-Employment Benefits (retiree health insurance) Trust Fund; and
- \$215,000 to be appropriated from the Capital Stabilization Fund to mitigate the Proposition 2 ½ exempt debt service impact of the Bridge, Bowman and Estabrook schools projects.

These proposed reserves and tax relief initiatives are possible due to the moderation in employee/retiree health insurance costs as a result of the Town having joined the State's Group Insurance Commission program, and the Town's strong financial position at the end of FY2014.

FISCAL YEAR 2016 RECOMMENDED BUDGET AND FINANCING PLAN

Table 1 provides a summary of the FY2016 General Fund budget, by cost center.

Table 1	FY2015 Appropriated Budget	FY2016 Recommended Budget	Change \$	Chg. %
Education	\$ 87,868,313	\$ 93,263,130	\$ 5,394,817	6.1%
Shared Expenses (<i>Public Facilities, employee/retiree benefits, pension, debt, liability insurance, Reserve Fund</i>)	\$ 47,352,943	\$ 49,978,942	\$ 2,625,999	5.5%
Municipal Departments	\$ 31,957,312	\$ 33,578,271	\$ 1,620,959	5.1%
Subtotal Operating Budget	\$ 167,178,568	\$ 176,820,343	\$ 9,641,775	5.8%
Cash Capital	\$ 5,958,117	\$ 4,871,905	\$ (1,086,212)	-18.2%
Other (<i>Appro. to reserves, misc.</i>)	\$ 7,049,726	\$ 11,856,862	\$ 4,807,136	68.2%
Total General Fund	\$ 180,186,411	\$ 193,549,110	\$ 13,362,701	7.4%
Projected Revenue	\$ 181,102,361	\$ 193,549,110	\$ 12,446,749	6.9%
Surplus/(Deficit)	\$ 915,951	\$ 0	\$ (915,951)	

Selectmen's Budget Principles

In developing the annual operating budget, the Board of Selectmen continued to adhere to the following principles in order to preserve the Town's long-term financial condition:

1. Continue to provide property tax relief to offset the Proposition 2½ debt exclusion costs of funding the Bridge, Bowman and Estabrook school projects.
2. Recurring revenues, not reserves or one-time revenues, should support operating expenses and debt service.
3. Debt will not be used to fund current operating expenditures.
4. Adequate reserves and contingency funds will be budgeted, consistent with the recommendations of the Ad Hoc Financial Policy Committee (2006) as adopted by the Board of Selectmen.
5. The use of reserves to fund operating expenses should be limited to cover temporary revenue shortfalls, consistent with the recommendations of the Selectmen's Ad Hoc Fiscal Task Force (2009).
6. Sufficient funds for building maintenance will be budgeted to properly maintain facilities and equipment as well as foster energy conservation.
7. One-time revenue use should be limited to funding one-time expenses (e.g., capital projects) or used to fund reserve accounts.
8. The core services currently provided through the operating and capital budgets should be maintained, recognizing that changes in service demands may require that additional resources be provided in certain areas.
9. Resources should continue to be provided for road, intersection, traffic calming and sidewalk improvements and to address deferred maintenance in these assets.
10. Continue to provide funding for the post-employment benefits liability.
11. A comprehensive long-term plan for funding critical school and municipal projects should be prepared and presented to Town Meeting.

The FY2016 Budget in Brief: Financing Plan, Expenditures, Reserves

While the Town's FY2016 operating budget has many complexities, the following matters deserve specific attention:

I. Financing Plan:

a. **Revenue Allocation Model:** It has been the Town's practice to equitably share Town revenues between the municipal departments and the School Department. Based on a model developed by the Town Manager and Superintendent of Schools and accepted by the Board of Selectmen, School Committee and financial committees, projected revenues are allocated, on a preliminary basis, such that after shared expenses are funded, 73.1 percent of all projected FY16 general fund revenues were allocated to the School Department and 26.9 percent were allocated to municipal departments.

b. **Revenue Projection:** In FY2016, General Fund revenues are projected to increase by \$12.4 million or 6.9 percent over FY2015 budgeted revenues. By way of comparison, budgeted revenue growth in recent years has been:

- FY15: 3.6 percent
- FY14: 6.9 percent
- FY13: 4.7 percent
- FY12: 4.0 percent
- FY11: 3.9 percent
- FY10: 4.0 percent

Table 2 provides a summary of the major General Fund revenue sources.

Table 2	FY2015 Tax Recap	FY2016 Projected	Change \$	Chg. %	% of Total Revenue
Property Tax Revenue	\$ 148,212,539	\$ 154,493,901	\$ 6,281,362	4.2%	79.8%
State Aid	\$ 11,193,462	\$ 11,430,692	\$ 237,230	2.1%	5.9%
Local Receipts (Recap)	\$ 9,853,431	\$ 10,769,383	\$ 915,952		
Local Receipts not shown on Recap	\$ 915,952	\$ -	\$ (915,952)		
Total Local Receipts	\$ 10,769,383	\$ 11,769,694	\$ 1,000,311	9.3%	6.1%
Available Funds	\$ 11,012,293	\$ 15,604,229	\$ 4,591,936	41.7%	8.1%
Other Available Funds: Use of Capital Stabilization Fund	\$ 919,000	\$ 620,567	\$ (298,433)	-32.5%	0.3%
Revenue Offsets	\$ (2,492,221)	\$ (1,987,549)	\$ 504,672	-20.2%	-1.0%
Enterprise Receipts	\$ 1,487,905	\$ 1,617,576	\$ 129,671	8.7%	0.8%
Gross General Fund Revenues	\$ 181,102,361	\$193,549,110	\$ 12,446,749	6.9%	
Less - Revenue Set-Aside for Designated Expenses	\$ 14,449,660	\$ 17,349,334	\$ 2,899,674	20.1%	
Net General Fund Revenues	\$ 166,652,701	\$176,199,776	\$ 9,547,075	5.7%	

c. **Revenue Sources:** The property tax remains the Town's primary revenue source, comprising 80 percent of total revenues (**Table 2**). Although residential property values make up 87.6 percent of the total assessed value in Lexington, residential property owners currently pay only 78.3 percent of total property taxes as a result of the tax classification model adopted by the Board of Selectmen (**Table 4**).

Tables 3 and 4 provide a history of the Town's assessed valuation and property tax levy.

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Table 3	Total Assessed Valuation	%Chg. From Prior Year	Property Tax Levy (net of excluded debt service)	% Chg. From Prior Year	Override Year
FY2015	\$ 9,359,615,090	9.4%	\$ 148,212,539	4.5%	no
FY2014	\$ 8,555,595,350	3.0%	\$ 141,842,483	4.8%	no
FY2013	\$ 8,307,956,760	3.5%	\$ 135,386,782	5.3%	no
FY2012	\$ 8,026,687,320	0.7%	\$ 128,615,714	5.2%	no
FY2011	\$ 7,973,719,190	1.0%	\$ 122,202,173	5.4%	no
FY2010	\$ 7,891,590,610	-1.8%	\$ 115,979,750	4.7%	no
FY2009	\$ 8,033,608,130	1.3%	\$ 110,778,389	5.6%	no
FY2008	\$ 7,929,164,350	-1.6%	\$ 104,879,746	9.3%	yes
FY2007	\$ 8,059,234,580	4.9%	\$ 95,954,870	6.9%	yes

Table 4	% Assessed Valuation		% of Property Tax Levy	
	Residential	All Commercial	Residential	All Commercial
FY2015	87.6%	12.4%	78.3%	21.7%
FY2014	86.6%	13.4%	77.3%	22.7%
FY2013	86.6%	13.4%	77.3%	22.7%
FY2012	86.9%	13.1%	77.7%	22.3%
FY2011	87.2%	12.8%	78.3%	21.7%
FY2010	87.4%	12.6%	78.6%	21.4%

State Aid, which is estimated at 5.9 percent of total revenues, is also an important source of revenue. As recently as FY2008, however, State Aid was 7 percent of total revenues. State Aid is currently projected to increase by 2 percent for FY2016, largely the result of the increasing number of students in Lexington's schools. The Legislature, however, will not likely vote the FY2016 State budget until after the close of Town Meeting. This revenue projection assumes that if FY2016 State or federal aid is below estimated amounts, the difference will be made up by the use of revenues set aside in this proposed budget (\$110,000). Federal budget reductions may impact certain School Department grants and State distributions to cities and towns.

Table 5 below provides a recent history of the Town's State Aid including the FY2016 projection.

Table 5	FY2012	FY2013	FY2014	FY2015 Estimated	FY2016 Projected
Chapter 70-Education Unrestricted	\$ 7,051,517	\$ 7,876,799	\$ 8,657,571	\$ 9,584,428	\$ 9,824,039
Charter School Reimbursement	\$ 23,222	\$ 18,769	\$ 12,628	\$ 1,786	\$ 20,571
General Government Unrestricted	\$ 1,202,550	\$ 1,296,276	\$ 1,326,917	\$ 1,363,715	\$ 1,397,808
Veteran's Benefits & Exemptions	\$ 63,817	\$ 156,539	\$ 147,543	\$ 169,557	\$ 127,726
Offsets (School Lunch & Library)	\$ 60,511	\$ 61,751	\$ 69,921	\$ 73,976	\$ 60,549
Total	\$ 8,401,617	\$ 9,410,134	\$10,214,580	\$11,193,462	\$11,430,693
\$ Change from Prior Year	\$ (105,074)	\$ 1,008,517	\$ 804,446	\$978,882	\$237,231
% Change from Prior Year	-1.2%	12.0%	8.5%	9.6%	2.1%

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II. Expenditures:

Budget highlights include:

- a. **Lexington Public Schools:** The FY2016 School Department proposed General Fund budget (net of grants and other receipts) is increasing by 6.3 percent. The Minuteman Regional High School budget (included in the Education line shown in Table 1) is decreasing by 3.3 percent, largely driven by declining enrollment.
- b. **Municipal Departments:** The municipal budget is increasing by 5 percent, largely the result of:
 - four new firefighter/paramedics (fee supported);
 - staffing for the new Community Center (supported by program fees and the tax levy);
 - staffing for the Visitors Center/Tourism activities (supported by receipts from the Visitors Center gift shop and the tax levy);
 - contractual salary adjustments; and
 - additional staff and equipment for the Town's Information Services/Technology programs.

The proposed municipal budget also reflects two departmental reorganizations:

1. **Department of Recreation and Community Programs:** In May 2015 the new Community Center is scheduled to open and be in full operation later in FY2016. The Town Manager has proposed that the Community Center programs and operations be integrated with existing Recreation programs and certain Senior Center programs, all managed under a Department of Recreation and Community Programs. A number of new staff are proposed for the new Community Center including a general fund supported Director, Office Manager and Clerk. The Youth and Family Program Coordinator, currently in the Human Services Department, will be transferred to the Department of Recreation and Community Programs. Other full and part-time staff may also be hired, but funded through program fees.
 2. **Office of Land Use, Inspectional Services and Economic Development:** The Town Manager has proposed placing the Planning Department, Conservation Commission, Building Commissioner/Zoning Enforcement Office, Economic Development Office and Health Department under a new position titled, Assistant Town Manager for Development. This organizational structure, if approved by the Board of Selectmen, will replace the existing Office of Community Development.
- c. **Health Insurance for Employees and Retirees:** At the time this FY2016 Recommended Budget and Financing Plan was being completed, the State's Group Insurance Commission (GIC), which the Town joined as of July 1, 2012, had not established its premiums for the various health insurance plans it will offer in FY2016. The Town has estimated a 7.5 percent increase in premiums for FY2016. The GIC is scheduled to set its FY2016 premium rates on March 4.

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Any budget revisions, if necessary, will be presented to Town Meeting as part of the motion for Article 4.

The FY2016 health insurance budget to be presented to Town Meeting will reflect 45 new school department positions and 13 new municipal positions. This budget also provides for the potential of an additional 45 active employees and new retirees not currently enrolled in the Town's health plans choosing to enroll. Further, the budget makes a provision for those employees who may convert from individual to the more expensive family plans.

Table 6 provides a recent history of the Town health insurance enrollments.

Table 6	Employees/Retirees Enrolled in Town's Health Insurance Program				
Fiscal Year ¹	Municipal Employees	School Employees	Total Employees	Retirees	Total
2007	260	819	1079	948	2027
2008	256	834	1090	976	2066
2009	267	859	1126	991	2117
2010	264	847	1111	1000	2111
2011	272	835	1107	1016	2123
2012	264	827	1091	1034	2125
2013 ²	253	822	1075	1112	2187
2014	269	839	1108	1151	2259
2015	268	835	1103	1189	2292

Note 1: Data as of November of each fiscal year.

Note 2: Increase in retiree enrollment in 2013 represents transfer of certain retirees from active to Medicare supplement plans.

- d. Utilities/Fuel: Utility costs for FY2016, accounted for in the general and enterprise funds, are expected to decrease by \$324,219 or 8.7 percent. With the conversion of heating systems at the Bridge, Bowman and Estabrook schools to natural gas, nearly all Town facilities now use this heating source. Three factors have contributed to the successful management of utility costs: installation of solar panels on six municipal and school buildings, generating 1.2MW of power and resulting in energy offsets of \$120,000; energy efficiency initiatives; and long-term energy contracts at favorable rates.

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Table 7 provides a recent history of the Town's energy budget.

	FY2013	FY2014	FY2015	FY2016	FY15-16	FY15-16
Table 7	Actual	Actual	Budget	Proposed	Change \$	Change %
Electricity	\$2,140,070	\$2,201,011	\$2,260,660	\$2,105,746	(\$154,914)	-6.85%
Heating Oil	\$147,105	\$6,625	\$5,600	\$5,600	\$0	0.00%
Natural Gas	\$854,387	\$1,041,768	\$970,217	\$888,783	(\$81,434)	-8.39%
Diesel/Gasoline	\$363,274	\$379,420	\$474,463	\$386,592	(\$87,871)	-18.52%
Total	\$3,504,836	\$3,628,824	\$3,710,940	\$3,386,721	(\$324,219)	-8.74%

- III. **Reserves:** Following the downturn in the economy in the 2001-2003 period, the Board of Selectmen became increasingly concerned about the Town's lack of financial reserves to bridge revenue shortfalls that result when a recession occurs. Reserves provide an important tool in managing Town finances during a recessionary period. In response to these concerns, in 2005 the Board appointed the Ad Hoc Financial Policy Committee to examine and propose comprehensive financial policies to address operational needs, catastrophic and emergency reserves, maintenance of assets and unfunded liabilities. This Committee's recommendations may be found on the Town's website <http://www.lexingtonma.gov/finance/adhocfinrept031506.pdf>. The resulting policy recommendations adopted by the Selectmen called for rebuilding financial reserves and addressing the Town's unfunded liabilities over a multi-year period. Implementing these policy recommendations, together with prudent budgeting, allowed the Town to weather the 2008-2012 financial downturn without materially impacting Town services or school programs.

Table 8 below provides a summary of the Town's primary reserve funds.

Table 8	Stabilization Fund	Special Education Stabilization Fund	Other Post Employment Benefits Trust Fund	Debt Service/Capital Projects/Building Renewal Fund
Current Balance, February 1, 2015 ⁽¹⁾	\$ 8,848,998	\$ 1,072,499	\$ 5,778,635	\$ 8,039,928
Proposed Appropriation From	\$ -	\$ -	\$ -	\$ 620,567
Proposed Appropriation To	\$ -	\$ -	\$ 1,862,194	\$ 9,447,832
Projected Balance, July 1, 2015	\$ 8,832,189	\$ 1,070,526	\$ 7,640,829	\$ 18,108,327
⁽¹⁾ Reflects 12/31/2014 Balance				

The Town's goal has been to build its reserves to a level of seven percent of General Fund revenues (\$12.5 to \$13 million), an amount considered sufficient to make up three years of revenue shortfalls that typically occur during an economic slowdown. This goal has largely been achieved. On another positive note, the budget includes a recommendation to continue to set aside funds for post-employment benefits (i.e., retiree health care) for the eighth consecutive year.

The Board of Selectmen has previously supported devoting a portion of the Capital Stabilization Fund to offset the substantial increase in excluded debt service related to the Bridge, Bowman and Estabrook school projects and the increase of within-levy debt service for the High School modular buildings project. This continued use of reserves to offset the debt service for these school projects is reflected in this recommended budget.

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Table 9 below provides an overview of the recommended appropriations to and uses of the Capital Stabilization Fund:

Table 9	FY2013	FY2014	FY2015	FY2016 Recommended	FY 2017 Projected
Prior Year Balance		\$ 1,601,836	\$ 3,990,704	\$ 8,042,713	\$ 16,654,978
Appropriation To CP/DSR/BR Stabilization Fund	\$ 1,600,000	\$ 3,983,240	\$ 5,910,726	\$ 9,447,832	
Subtotal-Available for Appropriation	\$ 1,600,000	\$ 5,585,076	\$ 9,901,430	\$ 17,490,545	\$ 16,654,978
Appropriation From Capital Stabilization Fund					
Bridge/Bowman/Estabrook Debt Service Tax Relief	\$ -	\$ (1,600,000)	\$ (950,000)	\$ (215,000)	\$ -
Other School and Municipal Capital Projects	\$ -	\$ -	\$ (919,000)	\$ (620,567)	\$ (1,943,000)
Subtotal - Appropriation	\$ -	\$ (1,600,000)	\$ (1,869,000)	\$ (835,567)	\$ (1,943,000)
Interest Income (a/o 12/31/14)	\$ 1,836	\$ 5,628	\$ 10,283		
Projected Balance of Fund	\$ 1,601,836	\$ 3,990,704	\$ 8,042,713	\$ 16,654,978	\$ 18,597,978

The FY2016 Capital Budget: Financing Infrastructure and Equipment

I. Proposed Capital Spending:

The recommended Capital Budget will provide for the continued aggressive replacement and improvements to Town buildings, infrastructure and equipment. Warrant Article 2 in the Special Town Meeting and Annual Town Meeting Articles 8-11, 14-16 and 18 represent the capital portion of this year's budget. For fiscal year 2016, a total capital budget of \$31.8 million is proposed.

Lexington's clear challenge for the next five years will be the demands increasing enrollments are placing on the Town's school facilities.

Table 10 provides a summary of funding sources financing the Town's recommended capital plan for FY2016.

Table 10	Free Cash/Tax Levy	Other Financing Sources ¹	Debt ²	Total
General Fund	\$ 4,871,905		\$ 18,687,025	\$ 23,558,929
Chapter 90/Other Funding	\$ -	\$ 1,135,605	\$ -	\$ 1,135,605
Water Enterprise	\$ -	\$ 1,015,500	\$ -	\$ 1,015,500
Sewer Enterprise	\$ -	\$ 1,390,500	\$ 1,200,000	\$ 2,590,500
Recreation Enterprise	\$ -	\$ 261,500	\$ -	\$ 261,500
Compost Revolving Fund	\$ -		\$ 690,000	\$ 690,000
Community Preservation Act ³	\$ -	\$ 2,540,601	\$ -	\$ 2,540,601
Total (all Funds)	\$ 4,871,905	\$ 6,343,706	\$ 20,577,025	\$ 31,792,635

¹ Other Funding includes \$961,105 in Chapter 90 Aid for street improvements, \$57,000 in PEG Access Revolving Fund monies for Cary Memorial WiFi, \$82,500 from the School Lunch Program revolving fund for kitchen equipment and \$35,000 from the Cemetary Trust Fund for a feasibility study of the Westview Cemetary building.

² General Fund includes a \$350,000 supplemental appropriation for LHS Modular Classroom construction, to be considered at the Special Town Meeting, but originally approved at the November 2013 special town meeting.

³ Includes both Town and non-Town CPA funded projects.

This capital budget is consistent with the recommendations of the Selectmen's ad hoc Fiscal Task Force. The Task Force suggested that, given favorable interest rates, the Town continue to make progress with the backlog of capital projects, increasing both debt and cash capital financing.

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Table 11 provides a history of the Town's cash capital plan for the period FY2012-2016.

Table 11	Cash Capital
FY2016 Proposed	\$ 4,871,905
FY2015 Appropriated	\$ 5,958,117
FY2014 Appropriated	\$ 6,919,202
FY2013 Appropriated	\$ 3,902,794
FY2012 Appropriated	\$ 2,627,174

II. Other Planned Capital Projects:

The Town is planning for a number of significant future capital projects over the next three to five years potentially including a number of school facility projects to address increasing enrollments, a new fire station, police station, Center Streetscape improvements, Hartwell Avenue infrastructure improvements, and an expanded Visitor's Center. It is recommended, and shown in Table 9, that the Town appropriate to the Capital Stabilization Fund an additional \$9,447,832 to be used to partially fund these future projects or to mitigate the related debt service.

III. Debt/Debt Service:

The Town of Lexington has maintained a Aaa credit rating for a number of years. Moody's Investors Service recently reaffirmed this credit rating in February 2015 when the Town issued \$23.5 million in long-term debt that sold at a 1.84 percent interest rate over a 5 to 10-year term. In its credit rating opinion, Moody's cited the Town's wealthy tax base with continuing economic development activities, healthy reserves and a track record of voter support for Proposition 2 ½ operating overrides and debt exclusions. The Aaa rating is the highest credit rating a municipality can receive and allows the Town to borrow funds at the most favorable interest rates. Approximately 30 of the 351 Massachusetts cities and towns maintain the Aaa rating.

Table 12 provides an historical summary of the Town's debt service. More detailed debt service schedules can be found in Section XI of this Recommended Budget and Financing Plan. The credit rating agencies find that debt service up to 10 percent of revenues reflects strong financial condition. The Board of Selectmen will propose appropriating \$620,567 from the Capital Stabilization Fund to mitigate within levy debt service. The Board will also propose appropriating \$215,000 from the Capital Stabilization Fund to offset a portion of the debt service costs for the Bridge, Bowman and Estabrook school projects.

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Table 12	FY2010	FY 2011	FY2012	FY2013	FY2014	FY2015	FY2016
Annual Debt Service	Actual	Actual	Actual	Actual	Estimated	Budgeted	Projected
General Fund ¹	\$ 4,256,097	\$ 4,669,173	\$ 4,849,052	\$ 5,669,343	\$ 5,534,823	\$ 6,730,641	\$ 6,732,527
Prop 2 1/2 Debt Exclusion ²	\$ 5,746,375	\$ 5,753,550	\$ 5,721,834	\$ 6,642,450	\$ 8,381,309	\$ 8,344,302	\$ 8,682,489
Water	\$ 1,074,551	\$ 1,193,333	\$ 1,258,968	\$ 1,299,090	\$ 1,260,655	\$ 1,379,622	\$ 1,415,508
Compost Revolving Fund	\$ 48,650	\$ 45,493	\$ 44,655	\$ 43,406	\$ 88,071	\$ 40,199	\$ 63,894
Sewer	\$ 575,357	\$ 651,446	\$ 879,713	\$ 956,855	\$ 1,131,673	\$ 1,220,843	\$ 984,679
Recreation	\$ 138,100	\$ 137,200	\$ 137,200	\$ 131,500	\$ 100,000	\$ 100,000	\$ 100,000
Total Debt Service	\$ 11,839,130	\$ 12,450,195	\$ 12,891,422	\$ 14,742,644	\$ 16,496,531	\$ 17,815,607	\$ 17,979,096
Gross Revenues	\$164,093,822	\$ 169,743,424	\$ 171,412,228	\$ 186,825,482	\$ 200,482,883	\$ 209,377,849	\$ 222,654,122
Debt Serv. % of Revenue	7.21%	7.33%	7.52%	7.89%	8.23%	8.51%	8.07%

Note 1: FY2016 General Fund debt does not include the \$653,602 from the Capital Stabilization fund as a funding source.

Note 2: FY2016 debt exclusion amount does not include the \$215,000 tax relief mitigation approved by Town Meeting or the \$950,000 appropriated in FY2015.

History of Proposition 2 ½ Overrides and Debt Exclusions in Lexington

The FY2016 budget, as presented, has been balanced without a Proposition 2 ½ Override. Below is a history of Overrides and Debt Exclusions election results in Lexington:

NR: none requested

<u>Fiscal Year</u>	<u>Override</u>	<u>Debt Exclusion</u>
2016	NR	NR
2015	NR	NR
2014	NR	NR
2013	NR	NR
2012	NR	\$51,800,000 (Est., Bridge, Bowman, Estabrook)
2011	NR	NR
2010	NR	NR
2009	NR	NR
2008 - approved	\$4,636,987	\$27,500,000 (Public Services Building)
2007 - approved	\$1,858,435	NR
2007 – not approved	\$3,166,166	NR
2006	NR	NR
2005 - approved	\$4,224,340	NR
2004 - not approved	\$4,957,000	NR
2003 - approved	NR	\$42,550,000 (schools, roads, Lincoln Park)
2002	NR	NR
2001 - approved	\$3,440,829	NR
2000 - approved	NR	\$52,235,000 (school building projects)
1999 - not approved	NR	\$68,200,000 (school building projects)
1998	NR	NR
1997	NR	NR
1996 - approved	\$1,500,000	NR
1995	NR	NR
1994	NR	NR
1993 - approved	\$2,718,092	NR
1992	NR	NR
1991 - approved	\$1,097,829	NR
1990	NR	NR
1989 - approved	NR	\$11,000,000 (Pine Meadows Golf Course)

Elderly/Low Income Property Tax Relief

The Board of Selectmen continues to examine various options to provide property tax relief to low income and elderly residents. The FY2016 recommended budget provides funding for the following tax relief programs:

1. Senior Service Program – Qualified property owners over the age of 60 can work for the Town and receive up to \$1,045 per individual or \$1,330 per two-person

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household toward their property tax bills.

2. **Property Tax Deferral** - The Town has received special legislation to increase the income limits for residents over 65 years of age who wish to defer their property taxes. Currently, seniors who earn less than \$65,000 qualify for this program. As a result of 2006 State legislation, Town Meeting voted to decrease the interest rate charged for elderly residents who choose to defer payment of their property taxes. The interest rate is determined each March and is tied to the U.S. Treasury 1-Year Constant Maturity. The interest rate for deferred taxes for the past six years has been:

FY2015	0.12 percent
FY2014:	0.15 percent
FY2013:	0.18 percent
FY2012:	0.26 percent
FY2011:	0.34 percent
FY2010:	0.68 percent
3. **Increase in the Property Tax Exemption Limits** – At the 2006 Annual Town Meeting, the Town voted to double the amount of the property tax exemption for certain qualifying residents, to \$1,000.
4. The Town offers an exemption from the Community Preservation Act surcharge to qualified low-income residents.
5. The Town provides a 30 percent discount on water and sewer rates to qualified low-income residents.

Collective Bargaining

The Town has settled collective bargaining agreements with the following unions and associations for FY2016: Library Union, Lexington Municipal Managers Association, Crossing Guards and Fire Union. For the FY2013 – 2015 period, the Town is still negotiating with the Lexington Police Association and Police Superior Officers.

The budget for fiscal year 2016 includes amounts that may be required for those collective bargaining contracts yet to be settled.

Tax Rate Estimate

Section 12 of the Selectmen-Town Manager Act requires the Town Manager to provide an unofficial estimate of the tax rate that might result if the financial plans presented in this report are adopted and the assumptions with respect to State aid prove reasonably accurate. Without assuming any change in the tax shift factor or assessed valuations for Fiscal Year 2016, a residential tax rate of \$15.56/\$1,000 of valuation is estimated compared to the residential tax rate of \$14.86/\$1,000 of valuation for Fiscal Year 2015.

The following table provides a summary of components of the property tax bill for a home assessed at \$724,000, which is the current median residential property value in Lexington.

FISCAL YEAR 2016 RECOMMENDED BUDGET AND FINANCING PLAN

MEDIAN RES. TAX BILL	FY2012	FY2013	FY2014	FY2015	FY2016 (est.)
Property tax w/2.5% increase	\$8,671	\$9,055	\$9,529	\$10,246	\$11,502
Proposition 2½ debt exclusion	386	415	459	550	576
Community Preservation Act surcharge	227	238	253	298	287
Total tax bill	\$9,284	\$9,708	\$10,242	\$11,094	\$12,365

Assumes no change in the residential/commercial tax shift in FY16.

Assumes no change in total valuation by class of property (residential, commercial/industrial, personal property) in FY16.

Additional Information

The remainder of this document provides additional information on various aspects of the Town's budget. In addition, the School Committee, Appropriation Committee and Capital Expenditures Committee will be providing separate documents, reports and recommendations. Further questions may also be directed to:

Town Manager Carl Valente: 781 698-4540

Assistant Town Manager for Finance Rob Addelson: 781 698-4622

Budget Officer Patty Moore: 781 698-4626